WEEKLY MARKET UPDATE

MONDAY

Markets closed early Monday to prepare for July 4th celebrations. Overall, markets were left mostly unchanged Monday with major market indexes, such as the S&P 500 and Nasdaq Composite, finishing the day up only slightly. Nonetheless, important economic data was released Monday including reports on construction spending and oil prices.

OIL PRICES

In understanding the report on oil prices, it is essential to understand the relationship between supply and demand. The value of any product is based on how desirable it is and how available it is. As demand for a product increases, consumers become more willing to purchase the product at higher prices, causing prices to increase, whereas when supply increases, the value of a product will typically decrease.

For the week of June 30th, the most recent recorded week, the price of Brent Crude Oil rose 1.4% from the previous week. This increase in price can be attributed to an increase in expected demand of 2.6% and a decrease in expected supply of 0.4%, both factors that contribute to price increases. Additionally, the report accounts for changes to oil prices that are not explained by supply and demand factors, known as the residual. For this most recent week, the residual fell 1.6% from the previous week, helping to push down prices a bit.

WEEKLY MARKET UPDATE

PRIVATE CONSTRUCTION SPENDING (MAY 2022 TO MAY 2023)

Construction Types with Highest Percent Change:

1.Manufacturing (72.6%)
2.Lodging (28.5%)
3.New Multifamily (20.2%)

Construction Types with Lowest Percent Change:

1.New Single Family (-23.7%)
2.Amusement and Recreation (-5.6%)
3.Communication (2.3%)

CONSTRUCTION SPENDING

Additionally, recent data on construction spending in May was released. Total Construction spending has increased since the beginning of the year from around $1,882.2 billion to $1,925.6 billion, an approximate 2.3% increase. Compared to last year this time, total construction spending has increased by 2.4%. Private and public construction spending combine to make up total spending, but private spending is significantly higher than public spending. While private construction spending has made almost no change since last May, public construction spending increased by over 12%.

PUBLIC CONSTRUCTION SPENDING (MAY 2022 TO MAY 2023)

Construction Types with Highest Percent Change:

1.Power (32.2%)
2.Conservation and Development (32.1%)
3.Commercial (28%)

Construction Types with Lowest Percent Change:

1.Office (2.1%)
2.Amusement and Recreation (2.3%)
3.Residential (3.8%)

WEEKLY MARKET UPDATE

WEDNESDAY

Upon the anticipation and release of the FED minutes, markets receded from their previous gains. For reference, the FED minutes provide an overview of financial and economic conditions released **3 weeks** after the Federal Reserve's policy decision meeting. With that said, information from this meeting is based on the meeting's date, June 13th-14th. In this meeting, members unanimously decided to leave the Federal Funds Rate unchanged, which is why interest rates have not fluctuated much over the past month.

Here's some important information shared in the FED minutes as well as additional analysis:

- **Stock markets** performed well overall; however, markets rose primarily as a result of a few large tech companies. Therefore, while it may seem like markets have been doing very well, they have mostly been pushed up due to the exceptional performance of a few large companies.
- Surveyed respondents believe that a **recession** is likely to come soon, but they believe that it will come later than expected because of a strong U.S. economy.
- **Real GDP**, which is GDP adjusted for inflation, has improved suggesting that the American economy is expanding.
- Demand for labor remains high as **unemployment** continues to remain considerably low.
- The rate of **inflation** has slowed, but inflation is still at very high levels.

- Consensus between committee members states that more assets will be sold off from the **FED's balance sheet.** Know that when the FED sells assets, such as Treasury securities, they are attempting to slow the economy and reduce inflation by limiting the supply of money circulating into the economy.
- Over the last year, ending in May 2023, average **hourly earnings** increased by 4.3%, which is far below its peak of 5.9% from last year.
- **Market participants**, such as big banks, believe that economic data indicates a strong and resilient economy. This belief among institutional investors has led them to predict further contractionary policy ahead. Therefore, big banks are expecting the FED to continue putting pressure on the American economy in hopes of bringing inflation down.
- **Borrowing costs** have increased as a result of higher interest rates on new bank loans.
- **Consumer spending** this year has been unexpectedly strong. This is likely due to a combination of increasing wage rates and higher asset valuations, especially in housing and stocks.
- The vast majority of participants agreed that rate increases would be "appropriate," so it is very likely that **interest rates** will continue to rise further into the year.

WEEKLY MARKET UPDATE

Today, June employment data came out for private employment, and the ADP Research Institute reported an increase of 497,000 jobs in the private sector, which was much higher than expected. To put into perspective how surprising this increase was, only 267,000 jobs were added in May. That is a substantial difference from last month, and it demonstrates an exceptionally robust job market.

THURSDAY

After some unease created from the FED minutes about a strong likelihood of additional rate increases in the future, markets fell significantly over news highlighting strong employment data. Although many of us would view a strong demand for workers as a good thing, the worry is that the current rate of unemployment is unsustainable and correlated to high levels of inflation. As a result, investors have viewed the current jobs report as an indicator of tighter contractionary policy, meaning that the current consensus is that interest rates are very likely to rise soon, and the U.S. economy will have to brace for more economic and financial pain.

Sectors leading the way in hiring...

- Leisure and hospitality: 232,000 jobs added
- Construction: 97,000 jobs added
- Trade, transportation, and utilities: 90,000 jobs added

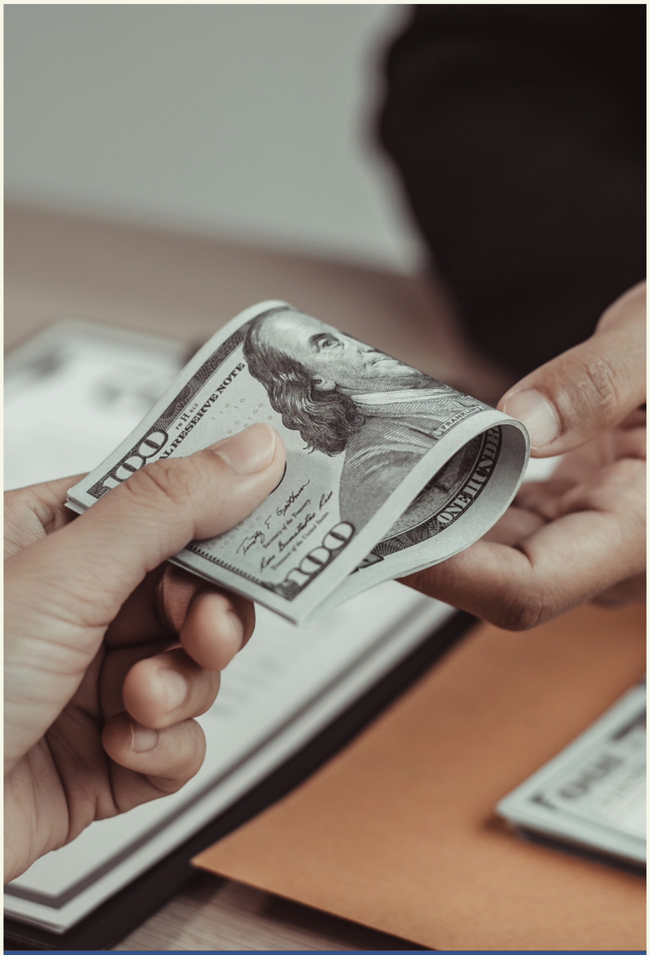
Sectors losing the most employees...

- Manufacturing: 42,000 jobs lost
- Information: 30,000 jobs lost
- Financial activities: 16,00 jobs lost

WEEKLY MARKET UPDATE

FRIDAY

For the third consecutive day, markets ended mostly down as a result of mixed jobs data released by the U.S. Bureau of Labor Statistics. According to the recently released labor data for the month of June, only 209,000 jobs were added, which is down from 370,000 jobs last year and 306,000 jobs this May. Despite a low number of jobs added for the month of June, the employment rate fell from 3.7% in May to 3.6% in June, further indicating an incredibly resilient workforce.



Jobs Data

Adding on to lower unemployment, there are many contrarians to the unemployment rate because it fails to account for discouraged workers (people who want to work but have been unemployed for a long period of time or are no longer actively seeking employment), leading to the belief that unemployment is higher than it is portrayed. Therefore, it can help to look at the number of discouraged workers to determine if unemployment truly has fallen for the month of June. For June, the number of discouraged workers fell significantly since May from 422,000 to 310,000, so the “true” rate of unemployment has fallen even if it still may be higher than it seems.

On top of lower unemployment, wage growth for private nonfarm employees improved in June with average hourly wages increasing 0.36% to $33.58 and average weekly earnings increasing 0.65% to $1,155.15. Investors look at this seemingly good news as an indicator for more interest rate increases from the Federal Reserve. Not only has unemployment fallen recently, but wage growth, a contributor to inflation, has increased. In response, investors today have acted out of fear of an even higher interest rate environment by selling off stocks.

WEEKLY MARKET UPDATE

FEDERAL RESERVE BALANCE SHEET

One of the ways the Federal Reserve can influence economic and financial conditions is by expanding or contracting its balance sheet, composed of various assets. When the FED expands its balance sheet, they conduct quantitative easing by purchasing assets such as Treasury and mortgage-backed securities and injecting money into the economy to stimulate economic growth. As you can see from the graph, the FED added substantially to its balance sheet during COVID, which is part of the reason the American economy was able to rebound so well from the effects of COVID. Immense amounts of cash were injected into the economy upon the FED purchasing more assets and adding to its balance sheet, ultimately leading to lower interest rates and higher business growth.

When they sell off assets from their balance sheet, they enact quantitative tightening by lowering the supply of money circulating through the economy, which decelerates economic activity. This is what they've been doing in order to curb inflation and bring prices across the U.S. back to more affordable levels. Since last year, nearly $600 billion worth of assets have been sold off from the Fed's current balance sheet worth approximately $8.3 trillion. With a combination of increased interest rates and quantitative tightening, the economy has slowed down since last year; however, there is still a long way to go as inflation continues to persist. Therefore, the FED will more than likely continue its contractionary policy to slow the economy down. In the long term, this policy will likely be beneficial, but in the near term, there will likely be considerable financial stress experienced by the American people. That said, it is important to prepare for the possibility of future economic slowdown, such as lower wages and fewer job openings, by adjusting your budget accordingly and contributing to an emergency fund.

MAJOR STOCK INDEX PERFORMANCE

	S&P 500	Dow Jones Industrial Average	Nasdaq Composite
Percent Change (Monday)	+0.12%	+0.02%	+0.21%
Percent Change (Tuesday)	N/A	N/A	N/A
Percent Change (Wednesday)	-0.20%	-0.36%	-0.18%
Percent Change (Thursday)	-0.79%	-1.07%	-0.82%
Percent Change (Friday)	-0.29%	-0.55%	-0.13%
Weekly Change	-1.16%	-1.95%	-0.92%

COMMODITY PERFORMANCE

	Crude Oil	Gold	Silver	Copper
Monday Price	**$69.79**	**$1,929.50**	**$23.112**	**$3.7940**
Tuesday Price	**$71.06**	**$1,933.95**	**$23.168**	**$3.7843**
Wednesday Price	$71.79	$1,927.10	$23.402	$3.7685
Thursday Price	$71.80	$1,915.40	$22.890	$3.7345
Friday Price	$73.86	$1,932.50	$23.289	$3.7820
Weekly Percent Change	+4.56%	+0.16%	+2.10%	+0.60%

U.S. TREASURY SECURITY YIELDS (IN PERCENT)

	1 Mo	2 Mo	3 Mo	4 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
Monday	5.27	5.40	5.44	5.52	5.53	5.43	4.94	4.56	4.19	4.03	3.86	4.08	3.87
Tuesday	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Wednesday	5.28	5.38	5.44	5.51	5.52	5.40	4.94	4.59	4.25	4.11	3.95	4.17	3.95
Thursday	5.32	5.47	5.46	5.52	5.54	5.44	4.99	4.68	4.37	4.22	4.05	4.23	4.01
Friday	5.32	5.47	5.46	5.52	5.53	5.41	4.94	4.64	4.35	4.23	4.06	4.27	4.05

LINKS TO ECONOMIC DATA FROM THIS WEEK

- Oil Prices
- Construction Spending
- Fed Minutes
- ADP Employment
- Labor Data
- FED Balance Sheet